

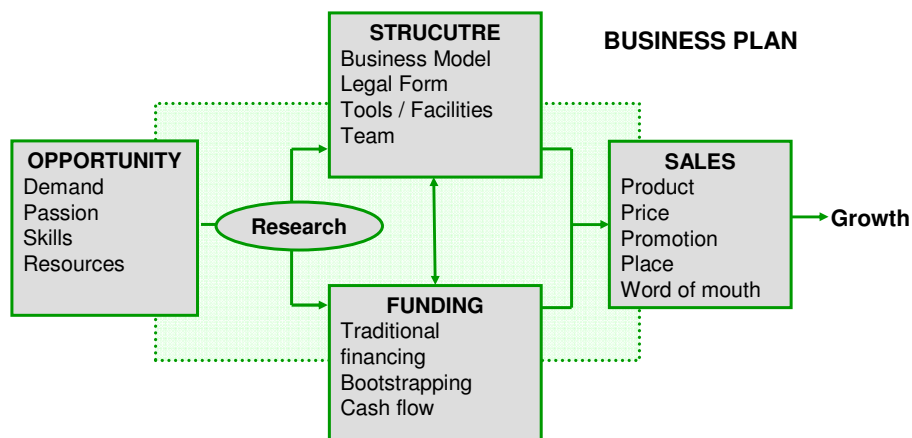
GIBS MBA Entrepreneurship Course

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New Venture Creation Model



YDE Case Study

Questions

1. Describe the YDE business model? What is innovative about this business model?
2. For whom does YDE create value? Identify all the parties that get value within the YDE business model and describe what value they get.
3. What other products could be sold via a similar business model? Is it happening? If not, why not?
4. What mistakes has Paul Simon made in establishing and growing YDE. Identify his errors and describe what you would do differently?
5. What are the key entrepreneurial lessons in the YDE story? Identify the THREE most meaningful lessons.
6. Why did Paul Simon sell 75% of YDE to Truworths? Did he do the right thing (in your opinion)?

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Paul Simon



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YDE Store



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YDE Store



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SA Home Loans Case Study

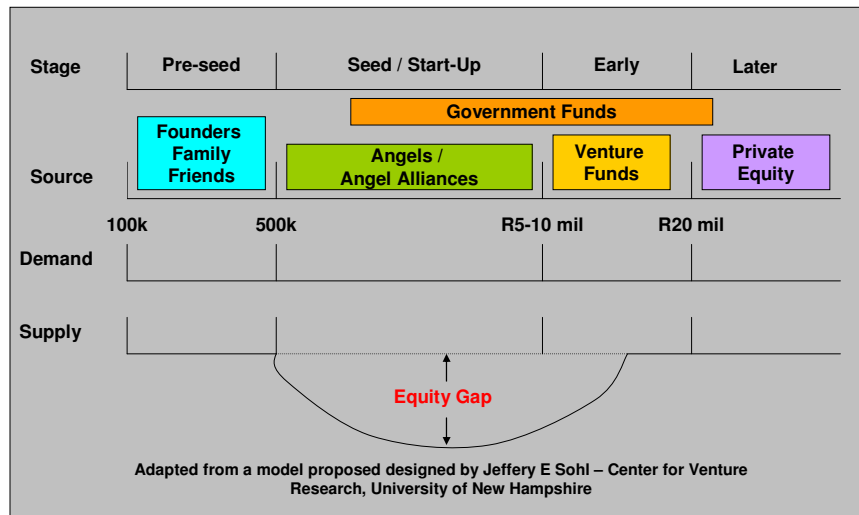
1. What personal characteristics enabled Simon Stockley to successfully establish SA Home Loans?
2. Describe the SA Home Loans business model by answering the following questions:
 - What are the sources of revenue for the business?
 - What are the cost drivers for the new business?
 - What size capital investment was required to launch and sustain the business?
 - What are the critical success factors for this business?
3. What did Stockley do to that enabled him to effectively fund the business? What other alternatives did he have for funding the business?
4. Identify the operational advantages that Stockley created in the business?
5. How did Stockley build a distinctive identity for SA Home loans.

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Funding

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New venture financing and the equity gap



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Sources of finance for a business

Equity Funding Sources		Debt Funding Sources	
<ul style="list-style-type: none"> Personal savings Family and friends Informal individual investors Venture capitalists Government agencies Partnerships / strategic alliances with corporations Private equity investors (for established businesses) Listing on stock exchange <ul style="list-style-type: none"> Alt-X Main Board 		<ul style="list-style-type: none"> Loans from family and friends Loans from government agencies or NGO's supporting entrepreneurs Bank loans 	
Advantages	Disadvantages	Advantages	Disadvantages
<ul style="list-style-type: none"> Often comes with useful management input and advice. Equity investors can give access to a network of useful contacts No immediate strain on cash flow in terms of repayments of the capital 	<ul style="list-style-type: none"> Lose a portion of the ownership of the business. Equity owners can be controlling which can cause friction with the founders Difficult to value an entrepreneurial business when allocating shareholdings 	<ul style="list-style-type: none"> Founder maintains full ownership of the business. Founder can manage and run the business as he/she sees fit 	<ul style="list-style-type: none"> Loan must be paid back which can create strain on cash flow for the new business. Bank is unlikely to assist in opening doors, giving advice or introducing founders to useful contacts.

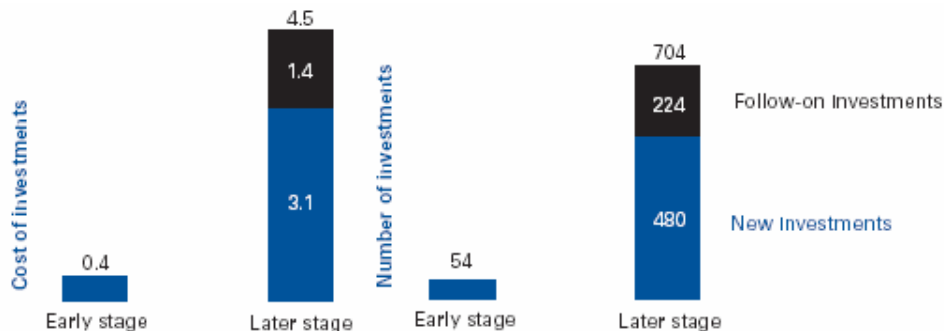
Early stage funding available in SA

Name	Min	Max	Excluding
Blue Catalyst Matching Fund	R2m	R12m	Biotech and life sciences
Business Partners (var. funds)	R150 000	R15m	Agriculture and on-lending
Enablis Khula Loan Fund	R100 000	R2.5m	None
HBD Venture Capital	R10m	R25m	Agriculture, gaming, alcohol, tobacco, real estate, pornography and armaments
Industrial Development Corp	-	-	Gaming and liquor
Khula Equity Fund	R150 000	R3m	Primary agriculture, on-lending and property not part of business
Lireas Holdings	R100 000	R5m	Insurance
National Empowerment Fund	R250 000	R50m	Mineral explorations, property development and pornography
Progressive Investment Trust	R1m	R30m	IT and agriculture
Treacle Venture Partners	0	R90m	Primary agriculture, real estate and resources
Triumph Venture Capital	R3m	R15m	None
Umsobomvu Youth Fund	R100 000	R8m	Tobacco, gaming and property

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Venture Capital in SA in 2005

Cost (R bn) of investments & no. of investments in 2005 analyzed by fund stage

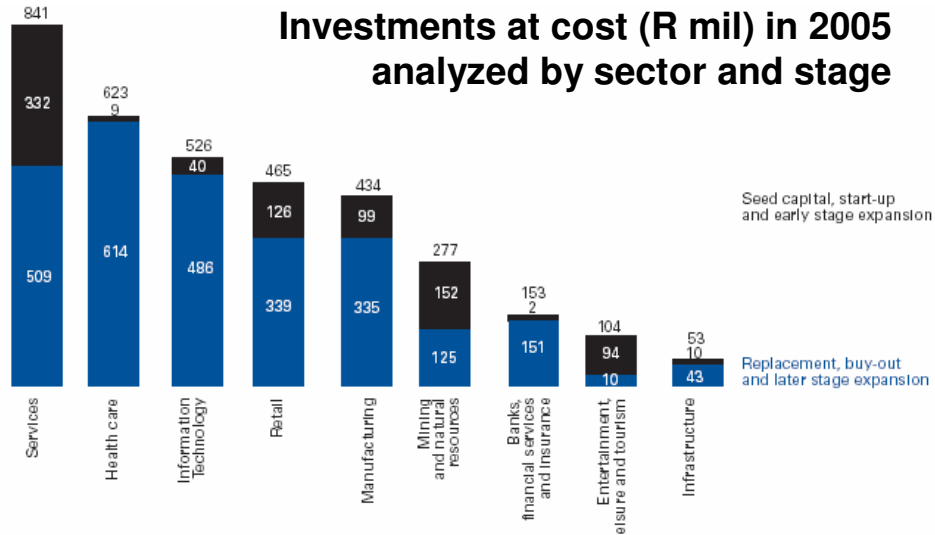


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Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

Investments at cost (R mil) in 2005 analyzed by sector and stage

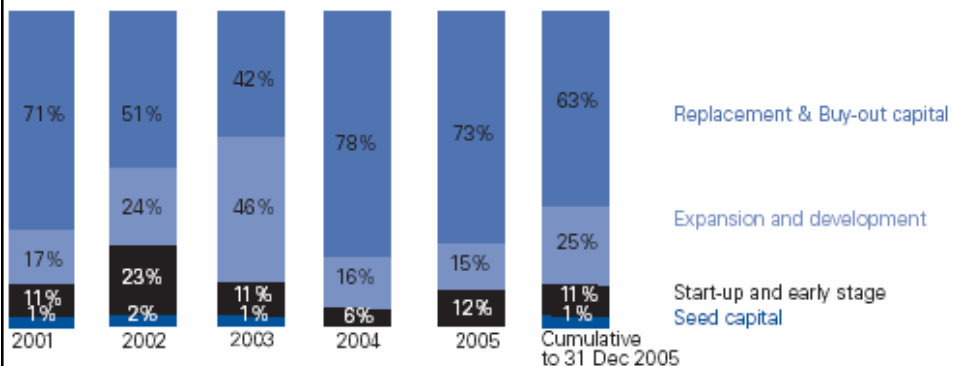


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Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

Investments at cost (R mil) up to 2005 analyzed by stage

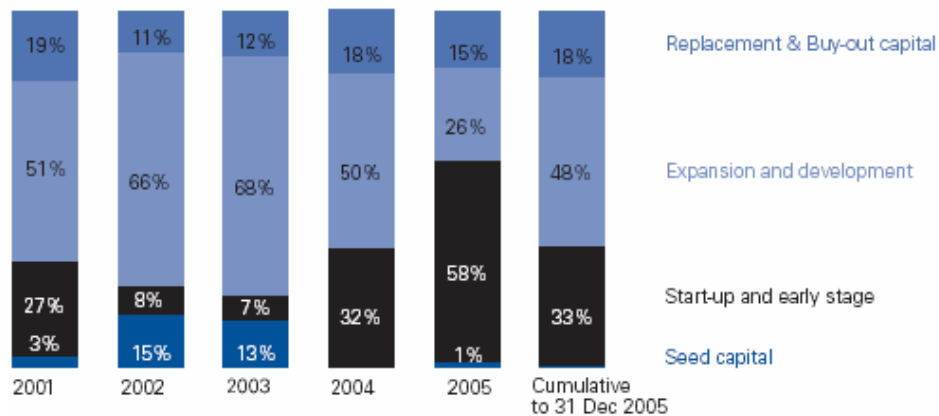


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Source: SAVCA KPMG Private Equity Survey 2005

Venture Capital in SA in 2005

Number of Investments up to 2005 analyzed by stage



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Source: SAVCA KPMG Private Equity Survey 2005

Funding Realities

- **More likely sources of funding for startup:**
 - Bootstrapping
 - Personal funds
 - Close connections
- **Some chance of getting funds for a startup:**
 - Corporate investor
 - Government enterprise creation funds
- **Low chance of getting funds**
 - Bank loan
 - Venture capital



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The Art of Bootstrapping

1. Focus on cash flow, not profitability
2. Forecast from the bottom up
3. Ship, then test
4. Forget the “proven” team
5. Start as a service business
6. Focus on function, not form
7. Pick your battles
8. Understaff
9. Go direct
10. Position against the leader
11. Take the “red pill.” i.e. be REAL about your cash situation



Source: Kawasaki, G. The Art of the Start. 2004. Portfolio.

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Bootstrap Finance: The Art of Startups

1. Get operational quickly
2. Look at quick breakeven, cash generating projects
3. Offer high value products or services that can sustain direct personal selling
4. Forget the crack team
5. Keep growth in check
6. Focus on cash, not on profit, market share or anything else
7. Cultivate banks before the business becomes credit worthy



Source: Bhidé, Amar. HBR 1992. Bootstrap Finance: The Art of Startups

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The Financial Plan

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Financial Plan

- Sales forecast
- Startup expenses
- 12 Month profit and loss statement (monthly)
- 12 Month cash flow statement (monthly)
- 3 – 5 Year profit & loss (high level – quarterly)
- 3 – 5 Year cash flow (high level – quarterly)
- Opening balance sheet
- Projected balance sheet
- Breakeven analysis

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Sales Forecast

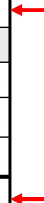
	M1 Budget	M2 Budget	M3 Budget	M4 Budget	M5 Budget	M6 Budget	...	M12 Budget	Total Budget
Cat 1 Units Sold*	a								
Sales Price Per Unit*	b								
Category 1 TOTAL	$axb=Z$								
Cat 2 Units Sold*	c								
Sales Price Per Unit*	d								
Category 2 TOTAL	$cx d=Y$								
Monthly Total	$Z + Y$								

* State the assumptions on which these numbers are based

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Start Up Expenses

Start Up Expenses	
Real estate	XXX
Capital equipment	XXX
Location and admin	XXX
Opening inventory	XXX
Advertising and promotions	XXX
Other expenses	XXX
Reserve for contingencies	XXX
Working capital	XXX
TOTAL	XXXX
Sources of Capital	
Owners investment	XXX
Bank loans	XXX
Other loans	XXX
TOTAL	XXXX



P & L Forecast

	M1 Budget	M2 Budget	M3 Budget	M4 Budget	M5 Budget	M6 Budget	...	M12 Budget	Total Budget
Revenue	+	+	+	+	+	+		+	
Cost of Sales	-	-	-	-	-	-		-	
Gross Profit	=	=	=	=	=	=		=	
Expenses	-	-	-	-	-	-		-	
Profit before tax	=	=	=	=	=	=		=	
Tax Expense	-	-	-	-	-	-		-	
Profit after tax	=	=	=	=	=	=		=	

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P & L Forecast

	M1 Budget	M2 Budget	M3 Budget	M4 Budget	M5 Budget	M6 Budget	...	M12 Budget	Total Budget
Revenue	+	+	+	+	+	+		+	
Cost of Sales	-	-						-	
Gross Profit	=	=	=	=	=	=		=	
Expenses	-	-	-	-	-	-		-	
Profit before tax	=	=	=	=	=	=		=	
Tax Expense	-	-	-	-	-	-		-	
Profit after tax	=	=	=	=	=	=		=	

EXAMPLES
Direct cost of goods sold

EXAMPLES
Salaries & wages
Other operating expenses
Interest payments
Depreciation

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Cash Flow Forecast

	M1 Budget	M2 Budget	M3 Budget	M4 Budget	M5 Budget	M6 Budget	...	M12 Budget	Total Budget
Units Sold									
Opening Cash Balance	+	+	+	+	+	+		+	
Cash Inflows	+	+	+	+	+	+		+	
Fixed Cash Outflows	-	-	-	-	-	-		-	
Variable Cash Outflows	-	-	-	-	-	-		-	
Closing Cash Balance	=	=	=	=	=	=		=	

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Cash Flow Forecast

	M1 Budget	M2 Budget	M3 Budget	M4 Budget	M5 Budget	M6 Budget	...	M12 Budget	Total Budget
Units Sold									
Opening Cash Balance								+	
Cash Inflows	+							+	
Fixed Cash Outflows	-							-	
Variable Cash Outflows	-							-	
Closing Cash Balance	=							=	

EXAMPLES

Cash sales of goods or services
Collection of accounts receivable
Interest earned
Sales of fixed assets or investments
Capital from investor
Loan received

EXAMPLES

Payment of cash expenses
Payment to creditors
Payment of salaries and wages
Purchase of inventory for cash
Purchase of fixed assets or investments
Payback loans
Payout dividends

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Balance Sheets

	Opening	End Y1	End Y2	End Y3
Assets				
Current Assets				
Cash				
Inventory				
Acc receivable				
Fixed Assets				
Property				
Equipment				
Furniture				
Vehicles				
TOTAL ASSETS				
Liabilities & Equity				
Current Liabilities				
Accounts payable				
Long Term Liab.				
Loans				
Owners Equity				
Capital				
Retain earnings				
TOTAL LIAB & EQUITY				

Balance Sheets

	Opening	End Y1	End Y2	End Y3
Assets				
Current Assets				
Cash				
Inventory				
Acc receivable				
Fixed Assets				
Property				
Equipment				
Furniture				
Vehicles				
TOTAL ASSETS				
Liabilities & Equity				
Current Liabilities				
Accounts payable				
Long Term Liab.				
Loans				
Owners Equity				
Capital				
Retain earnings				
TOTAL LIAB & EQUITY				

Goods or resources owned by the business to be transformed utilized / realized in 1 year

Goods or resources owned by the business that have a life span exceeding 1 year

Total amount OWNED by the business

Amounts owed by the business to be paid back within 12 months

Amounts owed by the business to be paid back after 12 months

Portion of the business attributable to the owners

Total amount OWED by the business to lenders or owners

Entrepreneurial Financial Management

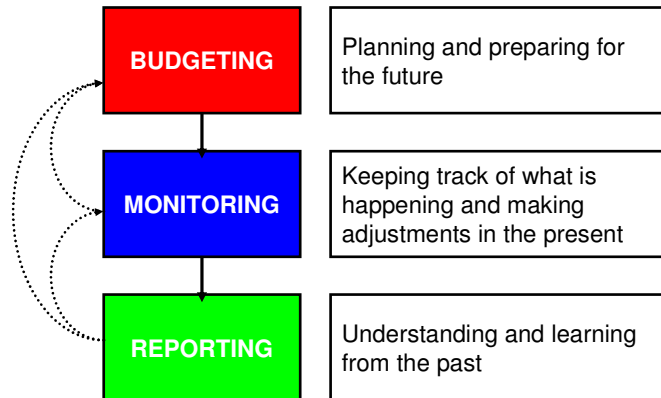
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Top 10 Principles for Entrepreneurial Financial Management

1. Budget for **CASH FLOW**
2. Build your **OWN** models
3. Its not just about **HOW MUCH** but also about **WHEN**.
4. Know the **NATURE** of different cash flows
5. Short term = **DETAIL**; long term = big picture
6. Your **BANK BALANCE** is your truth
7. Know your **BASELINE** (breakeven)
8. Keep **UP TO DATE**
9. Balance off being overly **PEDANTIC** versus dangerously **LACKADAISICAL**
10. Report results with **PURPOSE**

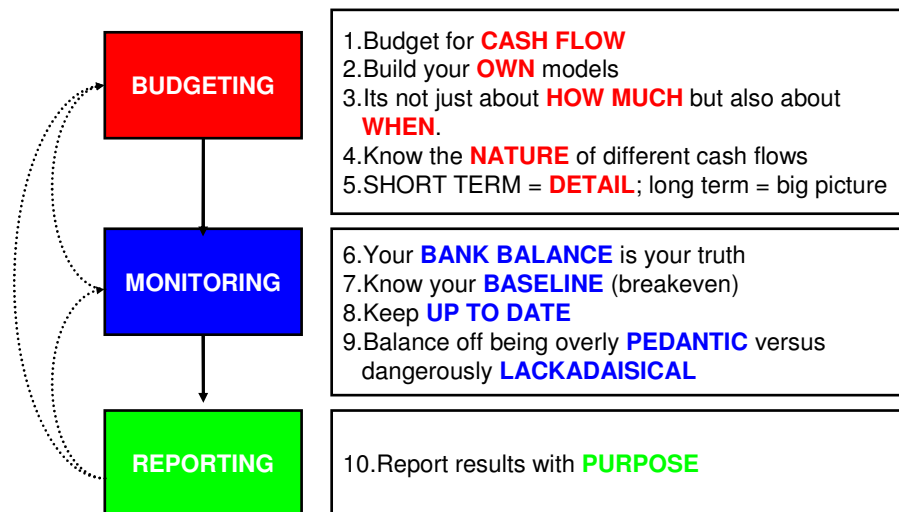
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Entrepreneurial Financial Management



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Entrepreneurial Financial Management



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Explanation of the 10 Principles

Budget for CASH FLOW	In a growing, privately held business cash is king. Accounting profits mean very little so forget about the accrual concept and set up a budget according to expected cash flows.
Build your OWN models	You can learn so much about your business and your business model by building your own financial models. You learn about all the key relationships between costs, revenue and cash flow. It is dangerous to outsource the development of the financial forecasts. If you are not financially astute, rather get a someone to coach you through developing the financial models as oppose to outsourcing the task.
Its not just about HOW MUCH but also about WHEN .	The timing of cash flows is critical. It is therefore important to plan when you will receive money into the business and when you will be required to pay for items. Most customers will push for late payments and suppliers will try and get you to pay early. Being aware of payment terms and negotiating favorable payment terms can be the difference between success and failure in a growing business.
Know the NATURE of different cash flows	Different costs have different cash flow implications. Some costs will result in cash outflows no matter how much you sell (e.g. rent or salaries). These are referred to as fixed cash flows. Other costs will only result in cash outflows if you actually sell something (e.g. sales commission). These are called variable cash flows. Note that fixed and variable cash flows are different from fixed and variable costs.
SHORT TERM = DETAIL ; long term = big picture	The shorter the time frame, the more detail is required when planning and forecasting your cash flows. For the immediate month ahead you may need to plan cash flows on a weekly or even daily basis depending on how low your cash flow is. For the year ahead, you will probably forecast cash flows on a monthly basis. There after you can move to a quarter by quarter and then a year by year basis.

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Explanation of the 10 Principles

Your BANK BALANCE is your truth	As you monitor the financial health of your business on an ongoing basis, your bank balance will be your ultimate truth. The bank balance does not lie and you therefore need to reconcile to the bank balance on a regular basis and do what you can to keep that balance in a healthy position.
Know your BASELINE (breakeven)	As you plan for a year, have a base line number of sales that you need to make to ensure that you remain cash positive. Knowing what the base line limit on sales and cash flow is means that you have an "must hit" target for each month. This serves to give you a level of comfort when you know that you will hit that target but also serves to wake you up when there is a risk that you won't hit the baseline targets.
Keep UP TO DATE	It is so easy and so tempting to put off updating the financial records to a latter date. Letting your accounting records get out of date can be debilitating in the medium term. Firstly you loose control of what is happening in the business, secondly the records become less and less accurate and less and less relevant the further down the line they are prepared and thirdly there is a real risk that you will run out of cash if you don't accurately monitor the cash flow in the business.
Balance off being overly PEDANTIC versus dangerously LACKADAISICAL	Some entrepreneurs are so pedantic about managing the finances and the cash flow that they forget about actually running the business and preparing for the future. Other entrepreneurs chose to ignore the finances and the cash flow until it is two late and they have exceeded their overdraft limit and are receiving lawyers letters from their suppliers. The key is to find a balance between the two extremes. If you are inclined to be pedantic, allow yourself to err on the side of being lackadaisical. If you are inclined to be lackadaisical, strive to be a little more pedantic than what you think is reasonable.
Report results with PURPOSE	Know and understand the purpose for which you are reporting financial results. If you are reporting results for internal decision making, be sure to include all the detail that will empower you and your team to make an informed decision. If you are reporting results to the bank to try and get some additional financing, you need to try and report a strong balance sheet and healthy cash flows. If you are reporting for tax purposes, you will want to make your profits look as weak as possible within the bounds of what is legal and ethical. Be very conscious of your ethical compass as you construct financial results for different purposes. Unethical entrepreneurs are seldom successful in the long run.

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Simplistic Cash Budget

	M1 Budget	M1 Actual	M2 Budget	M2 Actual	M3 Budget	M3 Actual	Total Budget	Total Actual
Units Sold								
Opening Cash Balance	+		+		+			
Cash Inflows	+		+		+			
Fixed Cash Outflows	-		-		-			
Variable Cash Outflows	-		-		-			
Closing Cash Balance	=		=		=			

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Simplistic Cash Budget

	M1 Budget	M1 Actual	M2 Budget	M2 Actual	M3 Budget	M3 Actual	Total Budget	Total Actual
Units Sold								
Opening Cash Balance	+		+		+			
Cash Inflows	+		+		+			
Fixed Cash Outflows	-		-		-			
Variable Cash Outflows	-		-		-			
Closing Cash Balance	=		=		=			

EXAMPLES

Cash sales of goods or services
Collection of accounts receivable
Interest earned
Sales of fixed assets or investments
Capital from investor
Loan received

EXAMPLES

Payment of cash expenses
Payment to creditors
Payment of salaries and wages
Purchase of inventory for cash
Purchase of fixed assets or investments
Payback loans
Payout dividends

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Bootstrapping BIZWIZ

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Bootstrapping BIZWIZ

1. Discuss how Andrew should market BIZWIZ to maximise the opportunity?
2. Prepare a skeleton marketing plan for Andrew based on your marketing recommendations?

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Marketing and Selling

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Simple Marketing Plan

Marketing mix component	Description of the component	Key questions to be answered by the entrepreneur	Considerations
Product	Good marketing begins with a good product or service.	Does it meet a specific need? What is that need? Must we customize our product or service? Do we deliver the appropriate quality for the customer?	Product variety Quality Design Features Packaging Services Warranties Returns
Price	You need to find a balance between attracting customers and making profits.	What does it cost us to produce the good or service? What are the competition charging for similar goods or services? Why are we charging more or less than the competition? How would revenue and profits be affected if we increased or decreased the price?	List price Discounts Allowances Payment period Credit terms

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Simple Marketing Plan

Marketing mix component	Description of the component	Key questions to be answered by the entrepreneur	Considerations
Place	This is about getting the product or service to the customer. Customers will only buy products or services that they have access to, thus it is critical to have distribution channels that reach the customer.	Are we going to sell locally, regionally, nationally or globally? How will we reach the customer? Do we need more than one channel for reaching the customer? Should we create our own distribution channel or partner with an established distributor?	Channels Coverage Transport
Promotion	Promotion is about communicating the merits of the product or service to target customers and persuading them to buy.	How will we make customers aware of the benefits of buying our product or service?	Advertising Sales force Public relations Direct marketing

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Creating buzz for your business

- **talk to your friends**, ask them to recommend the product to others, and hope that the word-of-mouth grow quickly
- **talk at every possible opportunity you can find**: be it industry conferences, meetings, seminars, and charity meetings
- **go after the so-called "opinion leaders"** - individuals that serve as sources of information, and are often considered by people as credible
- **pitch your story to the media**. A writer may print your story, or a television anchor may recommend your web site to their viewers

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Source: www.powerhomebiz.com

The Business Plan Big Picture

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The astute investor: Focus points in a business plan

- **The People.** The men and woman starting and running the venture, as well as outside parties providing key services or important resources for it such as suppliers, lawyers and advisors.
- **The Opportunity.** The need in the market for the proposed product or service. The size and growth of the potential market and the attractiveness of the industry in which the business will operate.
- **The Business Model.** A summation of the core business decisions and trade offs employed by a company to earn a profit. The decisions and trade offs include revenue sources, key expenses, investment size and critical success factors
- **The Strategy.** The methods and means of creating sustainable competitive advantage for the new business.
- **The Context.** The big picture – the regulatory environment, interest rates, demographic trends, inflation and the like – factors that inevitably change but cannot be controlled by the entrepreneur.
- **Risk and Reward.** An assessment of everything that can go wrong and right, and a discussion of how the entrepreneurial team can respond.

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Business Plan Headings

- Executive summary
- The industry and the opportunity
 - Market research and analysis
- The concept and the strategy
- The business model
- The team
- The marketing plan
- The operations plan
- The financial plan
- Critical risks, problems and assumptions
- The task schedule
- The investment offering (if applicable)
- Appendices

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Writing a business plan

Do	Don't
<ul style="list-style-type: none">• Get the entire management team involved in devising and discussing what should be in the business plan• Get one person to write up the final business plan to ensure consistency and coherence• Write up a good executive summary of no more than 2 pages• Be realistic about the risks of the business	<ul style="list-style-type: none">• Don't exceed 25 pages• Don't have excessive, detailed financial projections• Don't be overly optimistic – you will lose credibility• Don't use technical jargon or unknown acronyms

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Pitching the idea

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Pitching your Idea – Success Factors

- **Numbers come second** – get the potential funder to buy into the idea and the story around the idea first.
- **Know the market and the other players** – an ignorant entrepreneur won't raise any money. Knowing the market and the other players indicates to the investor that you have done your research.
- **Know the relationship between different costs and capacities** – this proves you understand your business model. Business models are about relationships between volumes, revenue, costs and capacities and any potential investor wants to know that the entrepreneur in whom they are investing understands their business model backwards.
- **Indicate your commitment to the venture** – tell them what you have sacrificed to make it happen. You must be totally committed to the venture; no investor will be remotely interested in a half interested or half committed entrepreneur. Investing in startups is about backing an entrepreneur and the investor wants to be sure he or she is backing the right entrepreneur.

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Pitching – the pitfalls

Mistakes that are commonly made by over zealous entrepreneurs :

- **“Everyone wants one”** – be realistic about the size of the market.
- **The 5% shuffle** – we just need 5% of the total market to make millions
- **“Mr X assisted me with the marketing plan and has 5% of the business, Mrs Y assisted me with office space and has 2% of the business”** etc. – unnecessary complexity tends to repulse investors.
- **“We need R100 million but R100 000 will do for now”** – if you need R100 million to make the idea work then R100 000 won't get you very far.
- **“I don't like you but I will take your money”** – taking on an outside investor or loan funder is considered by many to be worse than marriage; get on reasonably well with the people investing in your business.
- **“We may only be cash positive in a year's time, but look at the net profit after tax”** – Cash it what counts in new venture creation.

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Entrepreneurial Success

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Google Inc.

1. What were the key factors behind Google's early success?
2. Do you expect the search business to become more concentrated? Is search a winner takes all business?
3. In addition to enhancing its core search business, should Google branch out into new arenas? Which of the following would you recommend: (1) building a fully fledged portal like Yahoo!'s; (2) targeting Microsoft's desktop software hegemony; and / or (3) becoming an e-commerce intermediary like e-bay?
4. Do you view Google's distinctive governance structure, corporate culture, and organisational processes as strengths or potential limitations?

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SA Entrepreneurial Case Studies

What were your key learning points?

- Discuss in groups
- Consolidate your thoughts
- Feedback to class

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